

IRP PLAN

1. Introduction

Paragraph III.D.5 of the Commission's Framework for Integrated Resource Planning ("Framework")¹ states, in relevant part, that: "The integrated resource plan and program implementation schedule approved by the commission shall govern all utility expenditures for capital projects, purchased power, and demand-side management programs." As the Commission explained, "expenditures for all capital projects should be made consistent with the integrated resource plan. . . . In essence, an integrated resource plan is intended to 'control, direct, or strongly influence' all capital expenditures." (D&O 11630 at 8.)

2. Specific Projects Need Not Be Identified In An IRP Plan

Projects do not have to have been included in an approved IRP Plan to be consistent with the plan. With a few exceptions, specific capital expenditures projects are not identified or discussed in an IRP Plan. The exceptions have been planned central station generating unit additions, which generally are described as generic projects, rather than specific project proposals. (They have been described as specific projects when they have already been the subject of review proceedings pursuant to paragraph 2.3(g)(2) of G.O. 7. The plan does not include Independent Power Producer ("IPP") projects, unless there is a signed power purchase agreement for the project. Nonetheless, it is

¹ An electric utility's integrated resource plan ("IRP Plan") and program implementation schedule ("Action Plans") are developed and filed pursuant to the IRP Framework (revised May 22, 1992), which was adopted by the Hawaii Public Utilities Commission (the "Commission") by Decision and Order No. 11630 (May 22, 1992) ("D&O 11680") in Docket No. 6617, amending and reissuing the IRP Framework adopted in Decision and Order No. 11523 (March 12, 1992).

contemplated that IPP firm capacity projects may defer utility generation additions, and that IPP as-available energy projects may be added to the utility's system even though there is no explicit reference to these projects in the plan.

Other types of projects, such as transmission and distribution ("T&D") projects generally are not considered in the IRP process. However, that does not mean that T&D costs are irrelevant in the IRP process, or that an IRP Plan is irrelevant to transmission planning. Avoided T&D costs may be relevant to evaluating the cost-effectiveness of DSM programs. Transmission interconnection requirements for new generation resources should be considered in evaluating the costs of those resources. In the case of the Companies, planning for the transmission system is done in a manner that is consistent with and takes into account the resource additions in the latest resource plan.

Pursuant to the Framework, an electric utility files and requests approval of its IRP Plan and Program Implementation Schedule (or "Action Plans"), as well as a determination that the Preferred Plan represents a reasonable course for meeting the energy needs of its customers and is in the public's interest and is consistent with the goals and objectives of IRP. (See Framework II.D, page 5.)

The utility does not seek specific findings or approvals with respect to specific data or assumptions. In accordance with the Framework, the "commission's responsibility, in general, is to determine whether the utility's plan represents a reasonable course for meeting the energy needs of the utility's customers and is in the public interest and consistent with the goals and objectives of integrated resource planning." (Framework II.D.1, page 5.) Thus, the Commission generally addresses the

data and assumptions presented in an IRP Plan and Action Plans only to the extent necessary to support the Commission's ultimate finding and conclusions. As a result, the focus is on determining the overall reasonableness of the IRP Plan, and is not on the details that are reviewed in proceedings seeking authorization to implement specific demand-side and supply-side resource options included in the IRP Plan.

3. Given Their General Focus, IRP Plans May Not Even Be Approved

While the Commission approved the Companies' IRP Plans filed in the first IRP cycle, it has not deemed it necessary to approve the Companies' IRP Plans that were filed in the second IRP cycle.

HECO's 2nd IRP Plan was filed on January 31, 1998, in Docket No. 95-0347. Following the filing of the parties' Statements of Position ("SOPs") in July 1999, the parties were unable to reach agreement on additional procedural steps. On November 22, 2000, the Commission held a status conference where the parties agreed to meet informally to attempt to reach a stipulation. The parties then entered into a Stipulation Regarding Hearing and Commission Approval filed January 17, 2001, which disposed of the docket without the need for a hearing, subject to Commission approval.

The Commission approved the stipulation in Docket No. 95-0347 by Order No. 18340 dated January 29, 2001. With respect to the issue of Commission approval of the IRP Plan, the stipulation included in relevant part the following provisions:

5. As a result, the parties agree that (a) HECO's IRP Plan and Action Plans are sufficient to meet HECO's responsibility under Section II.C.1, 2 of the IRP Framework, and (b) it is not necessary under the circumstances for the Commission to issue a final decision and order under Section II.D.2 of the IRP Framework;

6. The parties further agree that, although HECO's IRP Plan and Action Plans will have the status of plans filed with, but not approved by, the Commission, HECO may execute the plans pursuant to Section II.C.3 of the IRP Framework as if approved by the Commission, and the IRP Plan and Action Plans will be considered to the extent deemed appropriate by the Commission in other HECO proceedings pursuant to Section III.D.5 of the IRP Framework. Nothing herein will be construed to prohibit HECO or another party from recommending that changes in forecasts (which may impact parts of the IRP Plan and Action Plans such as the scheduling of resource additions) or other planning assumptions be considered when the filed IRP Plan and/or Action Plans are considered in other proceedings;

(Order No. 18340, page 3-4.) In Order No. 18340, the Commission stated:

Upon our review of the stipulation, filed on January 17, 2001, we find that the agreements and conditions proposed above are reasonable and will expedite and facilitate IRP planning and development in the State of Hawaii, which will ultimately benefit the electric power consumer or ratepayers affected by this proceeding. We also agree with the parties that the focus of an IRP proceeding should be to determine the overall reasonableness of a utility's IRP, with less focus on the details that are reviewed in proceedings seeking authorization to implement specific demand-side and supply-side resource options included in the IRP.

(Order No. 18340, page 5.)

HELCO filed its 2nd IRP Plan, and Supply-Side and Demand-Side Action Plans, for the 20-year planning horizon of 1999-2018 on September 1, 1998, filed a supplement to its 2nd IRP Plan on March 5, 1999, filed a revision to its supplement to its 2nd IRP Plan on June 16, 1999, filed responses to information requests on July 23, 1999, and filed responses to supplemental information requests on October 8, 1999.

The Commission also held a status conference in this docket on November 22, 2000, at which the parties agreed to attempt to reach a stipulation similar to that in the HECO IRP docket. The parties have not yet submitted such a stipulation, however, in

part because of continuing uncertainty as to the status of certain existing IPP generating facilities, and the new combustion turbines at Keahole, for which construction has been suspended. The uncertainty impacts the timing of the next evaluation report, as well as the next IRP planning cycle, both of which would be addressed in the stipulation.

MECO filed its 2nd IRP Plan on May 31, 2000. The parties filed SOP's in April and May 2001, and responses to final information requests in June 2001. MECO's SOP indicated that it intended to explore the possibility of a stipulation similar to that entered into with respect to HECO's 2nd IRP Plan. Preliminary discussions with one of the parties, the Consumer Advocate, have been on hold as a result of the Consumer Advocate's other commitments.

4. IRP Plans Are Flexible

The resource plan resulting from the IRP process, whether approved by the Commission as in the first IRP cycle, or filed with the Commission and reviewed in a proceeding (but not approved in a final decision and order) as in HECO's second IRP cycle, is not a fixed, unchanging plan.

This is consistent with the Companies' integrated resource planning strategy, which has been to select plans that are flexible enough to account for changes in planning assumptions and forecasts. This allows for major decisions regarding the implementation of program options (for both supply-side and demand-side resources) to be made incrementally, based on the best available information at the time decisions must be made. Thus, the IRP Plans may be better characterized as planning "strategies", rather than as fixed courses of action. The plans identify what information is critical to the

decision making process, and also identify when the strategic decisions need to be made. A critical element of each plan is the recognition that the planned generating additions can be altered as the utility pursues other options, such as renewable technologies, additional cost-effective DSM programs, and now CHP Programs. This planning strategy allows the development of alternate options to address alternate futures.

The Commission has recognized in other types of proceedings that IRP Plans are dynamic and not fixed plans. For example, the resource plan used to compute avoided costs is not necessarily the utility's approved IRP Plan, but is its most current resource plan, which takes into account current circumstances such as those that are reflected in an IRP plan evaluation, or a biennial PURPA data filing. (See, e.g., Docket No. 97-0102, Decision and Order No. 16717 (November 25, 1998), page 7.) This is consistent with the approach taken in other jurisdictions. (See, e.g., Re Houston Lighting & Power Co., 158 P.U.R.4th 335, 340-41, 348 (Texas P.U.C. 1994).)

5. Programs Encouraging Energy-Efficient CHP Systems Are Consistent With The Companies' IRP Plans, Taking Into Account Current Circumstances

The Companies' proposed CHP Programs are consistent with the Companies' IRP Plans, and the energy efficiency objectives of those plans. The economic analyses reflect avoided costs taking into consideration the filed IRP Plans, as adjusted for current circumstances. Also, filings in the IRP dockets explicitly recognize the evolving approach to DG in general and CHP systems in particular. Moreover, IRP Plans filed in each Company's third IRP cycle will explicitly incorporate the Company's CHP Program.

In its 2nd IRP Plan, which was filed May 31, 2000, MECO indicated that the concept of DG had been evaluated, to the extent then deemed possible, in the IRP process. The evaluation of DG in the IRP process was difficult, however, due to the site specific, case-by-case nature of DG and the importance of knowing specific details in order to perform the appropriate evaluation and analysis of the project. The resources analyzed in the IRP process are not developed in detail for specific projects. (See MECO's 2nd IRP Plan, Section 7.4, Section 8.4.4.5, and Section 9.1.2; see also response to CA-SIR-44.)

HECO's December 2002 Evaluation Report, which addresses its 2nd IRP Plan, has a fairly extended discussion of DG and CHP systems. (See 2002 Evaluation Report, filed December 31, 2002, pages 37-43.) The updated load forecast referenced in the report recognizes that the impact of DG and CHP systems is expected to grow.

The Commission opened HECO's third cycle of integrated resource planning ("IRP-3") by Order No. 20430, filed September 11, 2003, Docket No. 03-0253, and HECO will be including its CHP Program in its IRP-3 resource plan. This can be done using economic analyses similar to those developed for purposes of analyzing the Companies' CHP Programs. HELCO and MECO's next cycle of integrated resource planning has not been determined at this time, but HELCO and MECO will also be including their CHP Programs in their respective IRP-3 resource plans. In the meantime, they plan to incorporate assessments of their CHP Programs in any evaluation reports filed with respect to their 2nd IRP Plans.